

BI-WEEKLY STATUS REPORT
October 14, 1994

Marketing

Issues: Consumer research, positioning platform development, packaging, launch/distribution strategy, conversion kit, merchandising.

Recent Activity: Expanded Milestone activity chart to include additional interim steps that need to be taken in order to stay on track for mid-1996 launch.

Follow-up discussions with Leo Burnett after September 29 marketing/advertising meeting to confirm understanding of assignment, next steps, deliverables, timing. Set up interim meeting for November 3 to review progress prior to Management presentation.

Worked jointly with PMKK on packaging/lighter graphic design development to incorporate their perspective into the designs that will be shown during October research in Japan.

On-going review of merchandising concepts with Design Continuum.

Began review of distribution issues. Developed pros/cons of lighter distribution options (direct mail vs. retail).

Developed marketing stimulus materials for Japanese testing at PMKK and Sanyo w/o October 17.

Upcoming Events: Preparation for meeting with PMKK in Japan and consumer testing among PMKK and Sanyo employees.

Marketing meeting on October 28 to review progress, particularly on lighter.

Preparation for November 7 presentation.

Sales and Distribution

Recent Activity: Developed Sales and Distribution timeline which was incorporated in the overall project plan and was based on time frames for traditional product launches.

Started work on distribution strategy alternatives to be used as a platform for discussion.

Started gathering information needed to develop a consumer service 800 number: meeting with people who developed the SFA help line and the new Wholesale Masters 800 service number.

Upcoming Events: Scheduled meeting for discussion of prior work done by marketing on catalogue sales.

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Consumer Research

Issues: Lighter design, cigarette taste acceptability, consumer receptivity (to concept, use, behavioral adaptation).

Recent Activity: The International Product Development panel continues to provide important sensory diagnostics for cigarette development and for screening products in preparation for Japanese and US employee interviews.

Plans are complete for 16 PMKK and 14 Sanyo "consumer" interviews the week of October 17. Objectives are to explore personal interest in the basic product proposition, assess taste acceptability by 4-9mg smokers of Japanese brands, and obtain guidance for product development and lighter design.

A quantitative consumer survey has been designed to segment markets based on an integration of demographics and smoking behaviors, lifestyles and attitudes. Information from the survey can identify smoker groups who could be potentially more receptive (internally or externally motivated) to our product's benefits. The survey outline is being reviewed in U.S., Japan, and Switzerland. Plans are to field the surveys in these three markets during fourth quarter 1994.

Upcoming Events: "Ashland Day" in mid-November to provide a day-long product usage experience for MDF smokers, to include observation by and interaction with nonsmoking colleagues.

PED will discuss the results of the 1994 studies on Consumers' Perceptions of Quality (quantitative and qualitative) at 3:00 p.m. following our November 9 Business Team meeting. Several MDF individuals had expressed interest in these findings for their product performance assessment or manufacturing design efforts, to retain a focus on the consumer's perspective.

Finance & Planning

Issues: Product costs, Year-end accruals, 1994 and 1995 budgets, Capital needs, Overall project schedule and milestones, NY planning schedule.

Recent Activity: Work continues on revising the estimated costs of preparing the Ancram mill to produce commercial MAT. New, lower estimates are expected during the week of Oct. 17. At least two scenarios reflecting minimal spending will be prepared along with a number of higher cost options.

Third Quarter accruals submitted to Finance. Discussions continue on compiling a list of 4 Quarter expense and capital options, especially KC.

Upgrading Microsoft Project to version 4.0 so that transfer of draft schedules from Richmond can resume.

Beginning work on updating the NY planning schedule for the balance of 1994 and 1995.

Upcoming Events: A meeting with KC is scheduled for October 26 to review Ancram estimates and to hopefully grant authorization to proceed.

Update on 3rd Quarter spending once the September functionals have been received the w/o October 17.

Tour of Pre-con will be arranged for the w/o October 24.

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Legal & Regulatory

Issues: Regulatory and legal review and research covering marketing, manufacturing, testing, distribution, planning and product liability issues; contractual arrangements; project assets structuring; document review.

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Protocol established for contacts with OEMs.

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Upcoming Events: Draft of Sanyo Commercialization Contract, minus price and product-based specifics, by October 31.

Research on market choices by mid-November.

Hire firm combining legal and engineering expertise for product testing.

Research lighter features.

Ongoing contractual arrangements with SAB members.

Distribution:

T. Beane
J. Carboni
G. Fleischhauer
C. Foran
T. Garguilo
P. Greenberg
C. Higgins
K. Houghton
J. Jones
B. Keen
C. Lilly
B. Losee
M. Moore
J. Nelson
M. Schroeder
V. Shavers
R. Solana
D. Westra
J. Williams

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